

FINANCE, AUDIT AND COMPLIANCE COMMITTEE MEETING MINUTES
4016 WEST BROAD STREET
RICHMOND, VIRGINIA

APRIL 10, 2006, 5:30 p.m.

PRESENT: C. T. Hill, Chairman, Thomas A. Stroup, Sherry Smith Crumley, Marshall Davison and William T. Greer (by telephone until 7:05 p.m.), John T. Montgomery, Jr.; **Secretary of Natural Resources,** The Honorable L. Preston Bryant, Jr.; **Senior Staff:** Colonel W. Gerald Massengill, Raymond E. Davis, Virgil E. Kopf, Becky Wajda, Bob Duncan, John Moore, James Adams, Gary Martel

A working dinner was provided for Board members and staff required to attend this meeting.

Chairman Hill called the meeting to order at 6:00 p.m. The Finance, Audit and Compliance Committee's (FACC) purpose, as specified in the Board's Governance Manual was reviewed, along with the Department's Finance, Audit and Compliance Review policy. The responsibilities of the Small Purchase Credit Card Review Committee (SPCC) are being incorporated into those of the Finance, Audit and Compliance Review Committee. The members of the SPCC are Ray Davis, Ed Walsh and John Moore and their monthly purchasing reviews will continue. The Chairman of the FACC will participate in some of the monthly review meetings.

Ray Davis stated that John Moore is the Department's Chief Compliance Review Officer. Mr. Moore is a CPA and is also a certified internal auditor. Staff is required to fully cooperate with Mr. Moore in any investigation that may be necessary. The Auditor of Public Accounts (APA) is the independent auditor that performs the Department's annual audits. The APA is a function of the state's legislature. The State Internal Auditor is a function of the Department of Accounts (DOA). The State Internal Auditor conducts investigations originating from the Fraud, Waste and Abuse Hotline, along with any written or oral complaints that may be received. The Department's accounts are also audited by DOA (expenditure compliance), the Department of General Services conducts purchasing audits, and federal audits are conducted every five years (grants and federal funds use and procedures). The Department has just undergone a federal audit and is awaiting the results of that effort. The FACC will meet with audit teams and will accept audit reports on behalf of the full Board.

The Committee also reviewed its draft charter. Tom Stroup was designated the FACC's financial expert, as required by the Committee's Charter. Ray Davis and John Moore were requested to review the specific duties of the FACC and to identify the specific meeting for addressing each responsibility. Additionally, it was felt that strategic

planning is a function of the FACC as well as the Education, Planning and Outreach Committee.

Term limits for FACC members were discussed, and it was felt that the Committee would benefit from staggered terms for its members, to insure consistency throughout the Committee. It was agreed that the Board Chair would designate initial terms for the FACC members to be one, two and/or three years.

The FACC's Charter requires the Committee to meet at least four times annually. Chairman Hill felt that FACC should schedule its meetings prior to Board meetings to insure that minutes of the Committee's meetings can be included in the Board meeting briefing materials. He suggested and the Committee agreed to meet on May 22, July 18, and November 14, 2006.

Staff was requested to make changes to the draft Charter and to bring it back to the FACC for final approval.

Ray Davis provided an overview of the agency's near-term financial status. He noted that the HB 38 model did not provide for any agency growth or new activities, and at that time, staff projected that the agency would encounter another funding deficit, if there were no changes, by 2010. Since HB 38 was enacted in 1998, additional personnel have been hired to meet agency needs and to meet constituent and administrative demands for enhanced services. The legislature approves the agency's appropriation, but the agency's appropriation may be cash constrained. Over the past several years, operations expenditures have twice exceeded revenue. Additionally, cash balances were used to meet capital requirements during this time. The agency's operational needs exceeded annual revenues, which led to insufficient funds to finance any capital needs. However, through special funding efforts, the Department has acquired two additional wildlife management areas. The Featherfin WMA was purchased by an interest free treasury loan to be repaid over four years with federal funds and capital funds. The Cavalier WMA was purchased with capital funds, federal funds and other grants. These acquisitions have reduced the agency's cash balances somewhat below the normal range at this time. Without the special funding allowances, the Department would not have been able to acquire these properties.

Anticipated capital costs include the federally mandated dam safety requirements (estimated at \$17 million for our impoundments through 2010). The Department owns 34 of the 68 dams that have been identified as problematic in Virginia. Additionally, the Coursey Springs Hatchery in Bath County is the next hatchery scheduled for renovation by the Department. It is key to the Fisheries Division's hatchery program having the flexibilities in operations until hatchery renovations are complete. It is estimated that it will cost between \$8.2 and \$10 million over the next three fiscal years to complete this renovation. Also, the APA is monitoring the state's infrastructure to insure that it meets

Code requirements and is maintained to sustain its value. The Department estimates that it will need \$2.5 million to repair the roof, heating, electrical, plumbing and air conditioning systems for the 4010 and 4016 buildings. The state treasury loan for the Featherfin WMA will also have to be repaid over the next four fiscal years (\$1.5 million annually).

It will cost approximately \$900,000 in the next fiscal year to construct the Region I office building. Remaining costs will be financed over the next 20 years by Virginia Commonwealth University bonds. Also beyond the Department's control are employee raises and benefits authorized by the General Assembly, the central services charges assessed annually for services provided by other state agencies, equipment being provided by the Virginia Information Technology Agency (VITA) and the salaries for VITA staff housed at DGIF headquarters. The Department of General Services (DGS) charges DGIF \$97.00 an hour to review all agency projects that flow through DGS. Additionally, a 10% surcharge will be assessed for all leases secured by DGS for DGIF. To address the anticipated revenue shortfalls, the Board would need to exercise its statutory authority (§29.1-103-15) to increase license fees up to \$5.00 per privilege. State statute restricts license fee adjustment to no more than \$5.00 per privilege once every three years.

Using Power Point, Virgil Kopf provided an overview of the agency's current and future operational status. He reported, using 2005 numbers, the agency's cash sources as 36% originating from license sales, 23% from federal revenue sources, 7% from boat registration and titling fees, 7% from miscellaneous (calendar sales, wildlife conservationists license plates, nongame donations, etc.) sources, 21% from HB 38 and another 6% from the watercraft sales and use tax. The HB 38 and watercraft sales and use tax revenues are transferred to DGIF from the general fund. Over the last three years, DGIF has received less than 50% of the \$25 million that was generated by the watercraft sales and use tax funds. The Department spends 61% of its revenue for personnel costs, 10% for equipment and 29% for goods and services. No capital costs are included in these expenditures.

Including debt repayment, central service fees and operational costs, and based on the lowest expenditure assumptions possible, and the maximum cash in balances, staff anticipates a negative revenue balance perhaps in the next fiscal year for its operational costs. Over the past few years, the agency's personnel costs have increased by approximately 8% annually. Goods and services and equipment costs have increased by approximately 20%. Staff noted that the agency's receipt of federal funds is contingent upon it having needed matching funds. Federal funds are reimbursed to the agency for funds spent. Staff anticipates by 2009, the agency will not have the revenue needed to fund operations that would generate federal matching dollars.

Staff commented that long-term funding strategies may need to be addressed by the General Assembly over the next two or three years. The only tool available to the Board at this time to address the anticipated revenue shortfall is the authority to adjust license fees. License fees were last adjusted in 1988 by the state's legislature (from \$7.50 to \$12.00). Staff noted that hunting and fishing license sales continue in a downward trend, but hunters still contribute more per capita than other groups. If license fees are increased by the Board at the maximum allowed, to be implemented by the next fiscal year, cash coverage for the agency's operations will be provided only for the next two to three and one-half years. No revenue will be generated for capital needs after three to four years.

During discussion, Dr. Greer suggested that the Board and Agency may need to look at a promotional program focusing on the pleasure of outdoors recreation, and Mr. Montgomery felt that it is important for the agency to conduct an outreach effort to retain participants. The perception is the Department's outreach efforts are inadequate.

Staff noted that in the absence of a database, outreach efforts will be hampered. The recent statewide budget crisis, and the significant decrease in the watercraft sales and use tax revenue received by the Department, plus the increase in personnel costs, have contributed significantly to the agency's anticipated revenue shortfall.

The Committee explored various alternatives to addressing the anticipated shortfall, including possible future legislative initiatives (i.e., increasing non-resident license fees beyond the Board's allowed authority), and increasing the costs for lifetime licenses. Additionally, it felt that opportunities need to be explored to allow wildlife enthusiasts to contribute to the programs being provided, increasing wildlife replacement costs that are assessed by the courts, and insuring that services provided match the level of participation. The Committee feels that all citizens of the Commonwealth either directly or indirectly benefit from the mission of DGIF and that we must explore ways to have all of the citizens share in the funding of the agency.

The Committee felt strongly that the Department must insure that expenses have been cut as much as possible, without jeopardizing federal funds and negatively impacting its mission. Staff assured the Committee that all expenditures will be evaluated closely during the budgeting process to maximize potential savings. While recognizing that the public has continuing expectations of the agency, staff assured the Committee that all pending capital projects are being reevaluated and all operational efficiencies are being explored. Secretary Bryant reminded the Committee that it is facing political challenges, and it was urged to insure that the appropriate levels of attention are given to any considered action. Because the agency's constituency base may be changing, he suggested that changes in the agency's organizational structure and mission might be necessary.

Secretary Bryant suggested that the Committee ask the Board to consider whether it would be appropriate to share the Department's revenue projection presentation at the upcoming Senate and House retreats. Additionally, the information may need to be shared with the legislative finance committees.

Staff was requested to comment on actions being taken by other state fish and wildlife agencies to address revenue issues. Virgil Kopf indicated that states are looking at alternative funding options, (getting general funds) while others have their law enforcement efforts provided by general fund revenue, or require landowners to purchase a license. After additional discussion regarding the appropriate timing for any Board action, **Ms. Crumley moved, seconded by Mr. Stroup, passed unanimously to propose a \$5.00 across the Board license fee increase including the combo license, excepting all youth licenses.** Dr. Greer had shown support for a license fee increase before he had to leave the meeting. The Committee intends to present a regulation proposal to increase license fees to the full Board at the April 25, 2006 meeting for consideration for statewide advertisement. The agency's proposed budget for 2006-2007 should be completed by mid May. Staff felt that it would be ready to show where efficiencies can be realized and have the information available for Committee review by its May 22 meeting.

For the record, Ms. Crumley stated that staff must begin to develop a legislative plan for the Department (reciprocal non-resident license fees, an apprentice license, possible enhancements to the sportsman/combo license), and the Board may need to revisit its position on the Sunday hunting issue. Staff was also encouraged to look for opportunities to outsource some of the agency's efforts. Needs must be justified.

A concern was expressed that the Department does not have an acceptable outreach effort in place. Therefore, each Division was requested to develop an outreach plan on the proposed fee increase to respond to its areas of responsibility.

At the request of the Board, staff provided a handout to the members on non-resident license fees.

Ray Davis provided each member a financial statement format (basically a cash in/cash out format) that was previously used by the Department for the Board. The Committee requested staff to use this format for its April financial report.

Chairman Hill called for public comment. **Ed Rhodes, Richmond, Virginia** provided clarification on VMRC's recent license fee increase, which occurred over a one-year period. He commented that VMRC is operated by general fund dollars. Their license fees are used to fund grants for multiple purposes. Additionally, he suggested that the Board may want to approach the legislature and request similar non-resident hunting and fishing license fees. Virginia's non-resident hunting license costs \$80.00 and the non-

resident fishing license is \$30.00. He also felt that some may view the proposed license fee increase negatively, but felt that most would be supportive.

Ms. Crumley requested staff to develop an outreach plan comparing costs for various recreational activities to a license fee.

As there was no additional business, the meeting was adjourned by the Chairman at 8:20 p.m.

Respectfully submitted,

Belle Harding
Board Secretary